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# Railways and the European Emission Trading Scheme - The review process

## Directive 2003/87 - Annex III

POSITION PAPER

COMMUNITY OF EUROPEAN RAILWAY AND INFRASTRUCTURE COMPANIES - COMMUNAUTÉ EUROPÉENNE DU RAIL ET DES  
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The ETS came into force in January 2005. The ETS is the centre stone of EU policies to control global warming. Large industrial emitters which are responsible for about half of all CO<sub>2</sub> emissions within in the European Union are covered by ETS. As a market based instrument to pursue climate change policies the ETS in effect sets a price for CO<sub>2</sub> emissions and should reward companies emitting less CO<sub>2</sub>.

However, the current implementation of the ETS does not support climate protection within the transport sector. About 24% of the total CO<sub>2</sub> emissions of the European Community are attributable to transport. Furthermore Greenhouse gas emissions from transport in the EU are estimated to increase by 35% by 2010 compared to 1990 if no further measures are taken in addition to the implementation of the existing policies. That means the transport sector is a key sector to reach national and EU-climate protection objectives. The European railways suggest using the current review of the ETS to reinforce the necessary contribution of the transport sector to common climate protection objectives. An amendment of Directive 2003/87/EC should include electric traction explicitly as an energy efficient technology under Annex III (see a proposal for the amendment under Chapter IV. of this Position paper).

## **I. ETS creates counterproductive effects in the transport sector with regard to climate protection goals**

Although the transport sector as a whole is not yet covered by the ETS from a legal point of view, the current ETS affects the different transport modes to very different extents, penalizing the most energy efficient and climate friendly mode, rail.

Due to their high energy efficiency railways are particularly climate friendly compared to other modes of transport. Specific CO<sub>2</sub> emissions (i.e. emissions in relation to the traffic performance) of motorised private transport, road haulage and air transport are far higher than those of rail. Specific CO<sub>2</sub> emissions by rail passenger transport amount on average to less than a third of the emissions caused by road transport. Rail actually generates 70% less CO<sub>2</sub> than air transport and in the freight transport sector, rail emits less than a third of the emissions of an "average" truck and roughly on twentieth of the quantity emitted by an airplane.

The electricity generating sector is de jure within the scope of the ETS and suppliers of electricity pass substantial costs resulting from ETS to consumers (costs resulting from purchasing of CO<sub>2</sub> certificates and also so-called windfall

profits due to the market value of emission certificates received free of charge). In the future such costs could also include auctioning costs. European Railways perform about 80% of total rail traffic by electric traction. Due to their high demand of electricity rail is the only mode of transport, which is severely affected by this instrument. The annual electricity costs of rail transport have risen significantly (approx. 50 million in 2005 in Germany only).

At the same time road, air and waterway transport - emitting the substantial part of CO<sub>2</sub> in the transport sector - are not affected by the ETS. In other words, CO<sub>2</sub> emissions trading do not have any cost effect on any of rail's competitors in the transport market. Not only that the environmental advantages of rail transport are not reflected in the ETS, the current form of the ETS has a negative effect on the competitive conditions for rail.

The disproportionately high burden on the rail sector resulting from the ETS has also been recognised by the European Parliament, which accurately stated on 4 July 2006 that ETS "is particularly a burden for the railway sector, because the railway sector is not only covered by taxes, but also by the EU ETS, which substantially raises the costs for this environmentally friendly transport system" (EP resolution on reducing the climate change impact of aviation, 2005/2249(INI) of 4 July 2006).

### **III. Review of ETS needs to take the energy efficiency of railways into account**

Because of their advantages railways are indispensable for coping with transport growth in an economically efficient and ecologically compatible way. Strengthening rail transport can make a decisive contribution to realising the climate protection objectives of the EU and this potential must be used.

The European Commission regards the first phase of the ETS as a valuable learning period. The target now must be to draw the proper conclusions from the experience acquired to date. In its Green paper on the future energy strategy of the EU, the Commission calls for an integrated approach to climate policies. With regard to the utmost importance of transport for climate protection objectives, it therefore should be thoroughly reviewed how ETS can achieve better effects in the transport sector.

CER regards emission trading as a potential option to control greenhouse gas emissions. But it is essential in general that all transport modes contribute to their responsibility towards climate protection. CER demands that:

1. All transport modes contribute to the reduction of greenhouse gas emissions on the basis of the polluter-pays principle and should be included in climate protection activities.
2. Distortion of competition between railways and other modes of transport is avoided.

#### IV. Proposal for amendment

Equal treatment in the transport sector means that as long as there is no harmonised system of ETS and other instruments integrating all modes of transport in climate protection activities, a way must be found to alleviate the rail sector from the additional costs and the one-sided burden resulting from the ETS. CER asks the Commission to initiate the necessary adjustment of the ETS.

The Commission rightly demands that ETS should be reviewed as a framework for promoting climate friendly technologies. The Community of European Railway and Infrastructure Companies therefore suggests to amend the ETS Directive 2003/87 in the following way:

Railways should be treated like energy efficient technologies according to the Annex III, paragraph 8 of the Directive. Energy efficient electric traction of railways should be explicitly mentioned as an energy efficient technology under Annex III, paragraph 8.

#### Proposal for new wording of Annex III

<p>(8) The plan shall contain information on the manner in which clean technology, including energy efficient technologies and electric traction in the transport sector, are taken into account.</p>
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On this basis the electric traction should receive all necessary emissions certificates according to their demand.

As a follow up action the "Communication from the Commission on guidance to assist Member States in the implementation of the criteria listed in Annex III of the Directive 2003/87" should be adapted accordingly as stated in the Chapter 1, paragraph 4 of this Communication.

CER is ready to make adequate proposals in this regard if the aforementioned proposal is supported.